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PART III

PATTERNS AND PERSPECTIVES

BLOC ECONOMIC RELATIONS WITH CUBA

The Soviet Union, with active support from the European satellites, is consolidating its initial economic ties with Cuba in an effort to lay the foundations for a long-term



Mikoyan opens Soviet exhibition in Havana, February 1960

economic relationship. Mikoyan's visit to Cuba last February resulted in the first formal economic ties between the Castro regime and the bloc, signaling a shift from cautious Soviet endorsement of the Cuban revolution to active support for the new regime. On 7 May, Cuba renewed diplomatic relations with the USSR and agreed to establish missions on the embassy level.

Prior to this year, bloc economic contacts were limited to sugar imports by the USSR and a few Czech sales to Cuba. Since Mikoyan's visit, East Germany and Poland have followed the Soviet lead in concluding bilateral trade agreements with Cuba, and details now are being worked out in Havana for an agreement with Czechoslovakia.

Present activity suggests that considerable care is being

taken to ensure successful implementation of new contracts, and the bloc probably will complete the year with a record of filled commitments. Prospects that the Sino-Soviet bloc might take over the US economic position in Cuba are remote, but the present economic agreements are already being hailed by both parties as a significant victory over "Western imperialism" and as adequate vindication for the propaganda claims about the new ties.

Soviet Trade Pact

The USSR is committed to purchase 1,000,000 tons of Cuban sugar annually for the next five years--four times the recent average. Barter provisions call for 20 percent of the USSR's imports during 1961-64 to be paid for in US dollars and 80 percent to be covered by shipments of Soviet goods.

In order to ensure complete and rapid fulfillment during 1960, the text of the agreement specifies that only the 425,000 tons of this year's total commitments

SINO-SOVIET BLOC SUGAR IMPORTS FROM CUBA

UNCLASSIFIED		VOLUME (TONS)	VALUE (MILLION DOLLARS)
SHIPPED IN 1959	USSR	270,000	16.6
	OTHER BLOC	—	—
	TOTAL	270,000	16.6
13.3% OF VALUE OF TOTAL CUBAN SUGAR SALES			
SCHEDULED FOR 1960	USSR	1,000,000	66.5
	POLAND	150,000	10.2
	COMMUNIST CHINA	130,000	8.6
	EAST GERMANY	60,000	4.2
	TOTAL	1,340,000	89.5
151% OF ESTIMATED VALUE OF TOTAL CUBAN SUGAR SALES			

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which were purchased after the signing of the trade pact will be on a bartered basis, and that earlier purchases, totaling 575,000 tons, will be paid for in cash. This arrangement should

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forestall the initial difficulties often experienced by underdeveloped countries in arranging to purchase bloc industrial goods as provided under the bloc's bilateral trade agreements.

The Soviet Union is rapidly concluding contracts and scheduling shipments of goods called for in 1960, almost all of which are raw materials easily shipped on short notice. A Soviet tanker arrived with a cargo of crude oil on 18 April as the first shipment under a \$12,000,000 contract calling for 600,000 tons of petroleum, half in crude and half in refined products. Subsequent shipments have now arrived and will continue for several months. Almost all the trade is being carried in Soviet vessels--some on scheduled runs from the Baltic--in an effort, however uneconomical, to underscore the Soviet presence in the Caribbean.

Other Soviet barter goods specified for 1960, such as wheat, pig iron, and fertilizers, are arriving in quantities which will quickly use up the \$30,000,000 necessary to balance this year's sugar commitment.

the total value of shipments scheduled through June will nearly fulfill the terms of the trade pact. While this trade is minor in terms of total Cuban imports, it will serve both sides as superficial evidence that the new ties are paying off.

A more accurate appraisal of Soviet-Cuban economic relations awaits developments next year, when Cuba is to import Soviet goods worth nearly twice as much as this year's purchases to balance sugar shipments, and, in addition, begin receiving Soviet industrial products under the \$100,000,000 credit. Difficulties are likely at that time, and lengthy negotiations and sound planning will be required if Cuba is to benefit.

Satellite and Chinese Activity

Since the autumn of 1959, the leading European satellites have stepped up their commercial activities in Cuba to exploit the readiness of the Castro government to nurture relations with the bloc. After several months of intermittent negotiations, a one-year trade agreement was concluded with East Germany calling initially for the barter of 60,000 tons of sugar for East German machinery and small industrial plants. The results, although admittedly just a beginning, are unexpectedly meager after the grandiose hopes expressed earlier for a long-term pact worth some \$200,000,000. An East German commercial mission is in Havana to promote further transactions.

A one-year trade agreement with Poland signed on 31 March provides the framework for delivery of Polish industrial goods, including ships, small plants, and light, commercial types of aircraft in exchange for Cuban sugar, minerals, metals, and other raw materials. No specific amounts have been disclosed, but

indicated the arrival in late April of several Polish representatives to make sugar purchases in addition to the 100,000 tons bought before the agreement. On 30 April a new Polish order for 50,000 tons of sugar was concluded at world market prices.

Czechoslovakia has for several years been the most active satellite in promoting trade with Cuba. Heretofore the only bloc source of Cuban imports, the Czechs have established a trade mission in Havana and are working chiefly through the powerful Institute of Agrarian Reform to supply trucks, automobiles, tractors, mining machinery, and construction equipment in exchange for Cuban sugar and some iron ore. No sizable shipments of Czech goods are

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known to have arrived in Cuba, but [REDACTED] a few Czech technicians hired by the institute are arriving to train Cubans in the use of bloc machinery and to negotiate for further shipments.

[REDACTED] negotiations between Hungary and Cuba for \$15,000,000 to \$20,000,000 worth of Hungarian machinery, probably on a government-to-government contract. No results of these talks have been disclosed.

Communist China, perhaps the strongest bloc supporter of the present Cuban Government, is not expected to play a prominent role in the bloc's economic program in Cuba. Chinese sugar orders for 1960 total 130,000 tons, worth \$8,600,000. These sales have been strictly for cash, and additional large Chinese purchases are unlikely. Peiping probably will not be extravagant with its foreign exchange reserves, even for political reasons, for the luxury of increased sugar consumption. The possibility of a formal trade arrangement [REDACTED]

[REDACTED] might offer barter opportunities, but this probably would be confined to a token effort to back up exaggerated Chinese propaganda support.

Bloc Economic Assistance

Real efforts toward implementation of the Soviet Union's \$100,000,000 line of credit are not yet under way. This credit, the only specific credit offer yet extended to Cuba by the bloc, is the standard Soviet gambit when timing for maximum political impact is desired and a sound development program has not been prepared. The credit is to cover the costs of capital equipment imports and technical assistance for new industrial plants to be undertaken during a five-year period beginning in 1961. The first projects envisaged at this stage are a steel mill and an oil refinery; the latter is probably intended

to process Soviet crude oil in order to reduce Cuba's present dependence on privately owned refineries and Western oil sources.

In terms of Cuban development goals, the Soviet credit is small, but successful utilization will serve to increase trade, and the 12-year repayment terms in Cuban goods assure economic ties over some 17 years. By the end of 1960, Soviet technicians should be coming to Cuba to undertake surveys.

There is no reliable evidence indicating arrangements for the delivery of bloc military aid to Cuba, although rumors of such deals have been rampant for nearly a year, particularly regarding possible sales of bloc combat jet aircraft. Cuban representatives are known to have visited the bloc, possibly in search of MIGs, but apparently without success. After repeated failures to obtain military aircraft from Western sources, arrangements may have been made with the UAR early this year for purchase of used British-made jets.

In view of Castro's intense desire to obtain military equipment, Cuban officials almost certainly pressed Mikoyan for some military aid during his visit. At a reception in Cuba on 12 February, when asked whether the USSR would sell planes to the Cuban Government, Mikoyan replied that it would if requested, but before leaving Havana he denied to the press that the issue of such sales had ever been raised. Subsequently he stressed that the Cuban people need "tractors and plows...not military planes."

The bloc's refusal to provide the Cuban Government with military equipment at this time reflects Moscow's decision to avoid this type of provocative action prior to the summit and during a period of "peaceful coexistence."

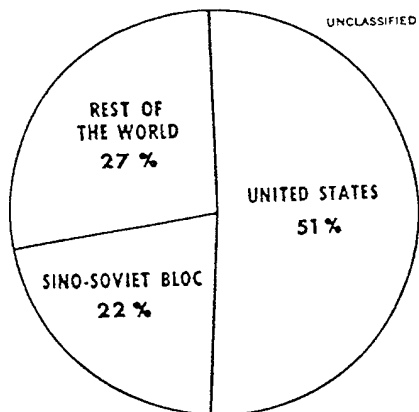
CURRENT INTELLIGENCE WEEKLY REVIEW

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Significance to Cuba

The most important change brought about by Havana's new bloc economic contacts is that, for the first time, Cuba will

ESTIMATED DISTRIBUTION OF CUBA'S 1960 SUGAR EXPORTS
BASED ON TOTAL VOLUME OF 6,100,000 TONS



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begin to accept significant amounts of bloc goods instead of cash payments for its sugar sales. The effects of this change will not be pronounced until 1961, as more than half of this year's sales to the bloc have been for cash and the barter provisions for 1960 with the USSR are easily fulfilled by diverting raw material imports from Western to bloc sources.

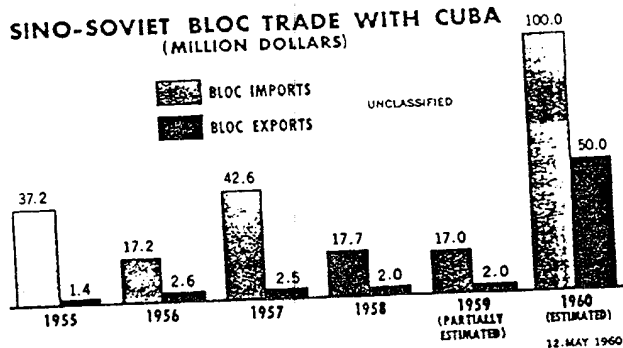
Substantially increased sugar sales to the bloc will not necessarily result in greater Cuban sugar exports, as all these exports outside the United States--including those to the bloc--are governed by the quota system of the International Sugar Agreement. For 1960 more than one half (3,100,000

tons) of total Cuban sugar exports will be sold to the United States at the premium price paid for all US sugar imports; the other half will be sold to the rest of the world at market prices, with total volume set by the International Sugar Council.

The long-term hope of Cuban leaders is for the new bloc sales to result in an expansion of world demand which eventually will boost the export quotas set by the council. Until the quotas are raised, however, the increase in sales to the bloc will largely be at the expense of those to traditional markets, with little if any net gain to Cuba.

Scheduled bloc imports of Cuban sugar for 1960 total 1,340,000 tons--about 45 percent of estimated Cuban sales to the world market outside the United States. In recent years annual bloc sugar imports from Cuba have averaged about 300,000 tons. In terms of total trade the bloc will account for at least 10 percent of the value of Cuba's estimated foreign

SINO-SOVIET BLOC TRADE WITH CUBA
(MILLION DOLLARS)



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trade for 1960, as compared with less than 2 percent in 1959.

At best, Soviet bloc trade of the planned magnitude will

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replace some essential imports from the West--a goal considered an end in itself by the Castro government. Soviet exports for the development of industry and agriculture, supplemented by aid deliveries, will partially compensate for the lack of new economic development credit available to Cuba from other sources.

Prospects

The chaotic situation in Cuba does not present the USSR with its best hope of setting up a workable economic relationship as a model for the rest of Latin America. Both countries possess the economic resources to work out the kind of permanent relationship now sought by Moscow, but it is doubtful that the more necessary ingredients are present for the

establishment of fruitful, long-term cooperation.

Currently it takes very little for a bloc or neutral country to please the Castro regime, and the immediate prospects are for considerable bloc success in exploiting the situation in Cuba. In the long run, the success of the new relationship will hinge on its tangible benefits to Cuba, and transformation of present contacts into firm economic bonds will depend chiefly on Cuba's ability to achieve some degree of domestic tranquillity. Present conditions offer numerous opportunities for the bloc to set up new trade and aid ties, but profitable long-term cooperation leading toward successful Cuban economic development will demand sound planning and rational administration. (TOP SECRET DAUNT) *BR*
(Prepared by ORR)